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ENERGY SAVINGS PERFORMANCE CONTRACTING

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Chairman Horn and esteemed members of the Michigan House Energy and Technology Committee. Thank you for the invitation and opportunity to provide information regarding Energy Savings Performance Contracting (ESPC).

ESG is accredited by the National Association of Energy Services Companies (NAESCO). In 2003, ESG was one of the first Energy Services Companies to earn the prestigious Energy Service Provider (ESP) accreditation. This accreditation is reserved for only the highest performing and professional companies in the energy services industry. ESG has provided over \$1.2 billion in energy projects and is approved by the Department of Energy, Department of Defense, and the State of Michigan. ESG's capabilities and successes in serving Federal clients have helped our government save millions of dollars while enhancing energy independence and security.

As many of you know, the Michigan Department of Corrections (MDOC) represents the largest expenditure for energy costs in State agencies. Working with MDOC and DTMB, ESG has designed and implemented a \$12.8 million dollar ESPC project at Parrall Correctional Facility. By updating heating systems, providing water conservation, and lighting upgrades, ESG will enable MDOC to repurpose wasted energy expenditures to finance the project. Within 10 years, savings will offset the project costs and over the life cycle, MDOC will save over \$30 million. Without ESPC, they would not have the budget for a large capital project. As a result, energy usage would have continued to increase, along with maintenance costs and unexpected emergency repairs. ESG is proud to be a partner with MDOC and hopes their leadership in this arena will provide incentive for other state entities to adapt their process.

Today more than ever, the public sector across the nation is faced with tight budgets while needing facility renovations and construction. ESG understands the challenges and stands shoulder-to-shoulder with our public clients to enable them to leverage existing resources in reducing energy and operation costs, increasing facility control, improving facility quality while maximizing taxpayer funds. To quote Dale Hahs, the National Director for the Energy Services Coalition, "Legislators nationwide are faced with aging facilities and aging infrastructure whose maintenance has been deferred for a host of reasons, and ignoring upkeep of existing investments due to budget challenges. ...it's within state and local government facilities, universities, schools and publically owned hospitals that an extraordinary amount of fundamental need exists, and it's at your fingertips to resolve. Utilizing the guarantee provided by private sector organizations, known as energy services companies or ESCOs, legislators and constituents alike can rely on the modernization of systems and devices to be replaced and paid for by the energy savings garnered from the very devices installed in the projects. This, along with a general

reduction in maintenance and emergency repairs, has provided and continues to provide a windfall of economic impact and an extraordinary relief of taxpayer burden.”

The concept of Energy Savings Performance Contracts (ESPC) presented is not new; it has been used for over two decades to deliver more than \$40 billion of projects in every State in the country as well as in Federal Buildings and Military Bases in the U.S. and around the world.

According to numerous business, academic and Government studies, in Michigan, State and Local Government facilities, like buildings around the Country, waste approximately one-third or more of the energy they purchase, this waste totals nearly \$150 million per year.

With a comprehensive program, these wasted dollars can be put to productive use by repurposing them into a payment stream that can finance over \$1 billion of energy-saving capital improvements that make better use of limited taxpayer dollars and create jobs.

Using existing best practices and the successful experience of 28 other states with ESPC programs, the State can create a program with the tools and templates to enable all public entities to take advantage of ESPC in public buildings that have been starved for capital improvement and maintenance funding for years. Financing these projects by redirecting dollars spent on wasted energy not only leverages existing taxpayers' dollars it relieves taxpayers of having to finance them in the future with tax increases.

The Federal Government has been providing leadership for years and is now increasing its commitment to ESPC. On December 2, 2011 announced nearly \$4 billion in combined federal and private sector energy upgrades to buildings over the next two years with Energy Savings Performance Contracting.

States across the country are using Performance Contracting to upgrade everything from facilities to roads, water infrastructure and other large capital expenditures. The opportunity exists and the contracting mechanisms are in place for the State of Michigan to provide needed leadership. Lastly, on an average ESPC contract up to 50% of the project costs goes toward labor predominately for skilled trades and Construction labor. Michigan can save money and give a much-needed boost to the construction industry without spending additional taxpayer funds. Instead of going up a smokestack or down a sewer, the money goes in the pockets of hardworking MI residents.